

Message Text

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SUBJ: BRAZILIAN ECONOMIC INDICATORS

REF.: RIO DE JANEIRO 2454

SUMMARY: RECENT DATA ON 1977 BRAZILIAN ECONOMIC PERFORMANCE INDICATES THAT SEVERAL SECTORS ARE EXPERIENCING A "COOLING OFF". PRICES, HOWEVER, CONTINUE TO RISE RAPIDLY (AT AN ANNUAL RATE OF CLOSE TO 50 PERCENT). MONEY SUPPLY (M1) EXPANSION APPEARS TO BE WITHIN THE GOB MONETARY BUDGET LIMITS BUT COMMERCIAL BANK LENDING IS HIGHER THAN ANTICIPATED. THE TRADE ACCOUNT FOR THE FIRST FIVE MONTHS OF THE YEAR IS REPORTEDLY IN SURPLUS. END SUMMARY.

1. INDUSTRY: IN SEVERAL SECTORS THERE IS EVIDENCE OF A SLOWDOWN IN ECONOMIC ACTIVITY. AUTO VEHICLE PRODUCTION THROUGH APRIL WAS 292,000 UNITS, 7 PERCENT BELOW THE 1976 TOTAL. VEHICLE SALES FOR THIS PERIOD ARE DOWN 10 PERCENT. A PROMINENT BRAZILIAN LABOR UNION OFFICIAL ESTIMATED THAT 10,000 OF THE 120,000 EMPLOYEES IN THE SAO PAULO AUTO SECTOR HAVE BEEN LAID OFF.

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IN THE HEAVY MACHINERY SECTOR THE VOLUME OF ORDERS WAS REPORTEDLY OFF 11.3 PERCENT FOR THE FIRST THREE MONTHS OF 1977 (COMPARED TO JAN.-MARCH 1976). FIRST QUARTER SALES OF MANY ELECTRO-DOMESTIC PRODUCTS ARE DOWN, PARTICULARLY AIR CONDITIONERS (- 29.5 PERCENT IN VOLUME), AND TELEVISION SETS (- 13.1 PERCENT). SAO PAULO RETAIL SALES DECLINED 2 PERCENT IN NOMINAL TERMS FROM MARCH TO APRIL; THE APRIL 1977 SALES WERE 40 PERCENT (NOMINALLY)

ABOVE APRIL, 1976 TOTALS.

2. THERE WERE INDICATIONS OF CONTINUED EXPANSION IN SOME SECTORS. INDUSTRIAL CONSUMPTION OF ELECTRIC ENERGY IN THE RIOA-SAO PAULO AREAS WAS UP 17.7 PERCENT FOR THE MONTH OF APRIL FROM A YEAR AGO (AND 13.5 PERCENT FOR THE FIRST FOUR MONTHS OF 1977).

3. STEEL PRODUCTION IN GOB-OWNED MILLS (WHICH ACCOUNT FOR APPROXIMATELY 55 PERCENT OF TOTAL BRAZILIAN STEEL PRODUCTION) WAS UP 31 PERCENT FOR THE JAN.-APRIL PERIOD; PRODUCTION FROM PRIVATE MILLS INCREASED 8 PERCENT. THIS HIGH RATE OF GROWTH IN THE STATE MILLS -- A RESULT OF BRINGING NEW CAPACITY ON STREAM -- IS EXPECTED TO SLOW SOMEWHAT IN THE SECOND HALF OF THE YEAR. CONSIDER (THE GOB AGENCY THAT ADMINISTERS THE STATE-RUN STEEL PLANTS) IS PREDICTING A 20 PERCENT INCREASE (TO 11.1 MILLION METRIC TONS) IN OVERALL 1977 BRAZILIAN STEEL PRODUCTION.

4. INFLATION: AS MEASURED BY THE GENERAL PRICE INDEX, ACCUMULATED INFLATION FOR THE FIRST FOUR MONTHS OF THE YEAR WAS 16 PERCENT. THE PRICE INDEX RISE FOR MAY IS WIDELY ESTIMATED TO BE 3.2-3.5 PERCENT, BRINGING THE TOTAL INCREASE FOR THE FIRST FIVE MONTHS OF 1977 TO 20 PERCENT. IN APRIL, AS IN EARLIER MONTHS, INCREASES IN FOOD PRICES OUTPACED THE OVERALL INDEX RISE. RECENTLY, THE PRESIDENT OF THE BANCO DO BRASIL REPORTEDLY STATED THAT A GOOD RESULT FOR BRAZILIAN INFLATION THIS YEAR WOULD BE 40 PERCENT.

5. MONEY SUPPLY: THROUGH MAY 17, THE MONEY SUPPLY (M1) HAD REPORTEDLY INCREASED 0.9 PERCENT THE THE 1976 YEAR-END TOTAL. UNCLASSIFIED

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THE MONETARY BUDGET CALLS FOR AN EXPANSION OF 1.2 PERCENT THROUGH MAY 31. (SEEMINGLY LOW INCREASE IS DUE TO THE USUAL SIPPING-UP OF THE SEASONAL BOOST IN MONEY TO MEET YEAR-END LIQUIDITY DEMAND.) COMMERCIAL BANK LEADING (AS OF MAY 17) TOTALLED CR\$308 BILLION, 7.3 ABOVE THE LEVEL PROJECTED IN THE MONETARY BUDGET. BY EARLY JUNE, HOWEVER, COMMERCIAL BANKERS WERE REPORTING A FALL-OFF IN LOAN DEMAND. REPORTEDLY, MAY 17 BANCO DO BRASIL LENDING WAS CR\$238 BILLION, SLIGHTLY BELOW THE BUDGET LEVEL. ACCORDING TO RECENT NEWSPAPER REPORTS, THE MONETARY BUDGET WILL BE REVISED IN MID-JUNE: LENDING TARGETS WILL BE REDUCED. THE REASON FOR THE CUTBACK IS THE UNEXPECTEDLY LOW LEVEL OF PRIOR DEPOSITS FOR IMPORTS.

5. EXTERNAWL SECTOR: IN COMMENTS TO REPORTERS, FINANCE MINISTER SIMONSEN STATED THAT IN MAY, FOR THE SECOND CONSECUTIVE MONTH, THE TRADE ACCOUNT WAS IN SURPLUS AND THAT, IN FACT, THE ACCUMULATED BALANCE FOR THE FIRST FIVE MONTHS WAS A SURPLUS. (THE 1977 TRADE BALANCE THROUGH APRIL WAS A \$78 MILLION DEFICIT). (REFTEL).

SIMMONS

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